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19 April 1974

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MEMORANDUM FOR:

[Redacted]

National Intelligence Officer/
Western Europe

SUBJECT : The role of the Public Sector in
the Italian Economy

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1. Attached is the information you requested in
connection with the DCI's request for an evaluation
of the extent of state control of industry in Italy.

[Redacted]

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Attachment:

As stated

Distribution: (S-6104)

Orig & 1 - Addressee w/att

1 - D/OER w/att

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The Role of the Public Sector in the Italian Economy

Since the early 1960s ownership of enterprises has shifted increasingly to state entities. Recurrent labor problems, financing difficulties, and inability to surmount technological gaps caused many private companies to sell controlling blocks of stock to state-controlled firms. Many Italian businessmen feel that the traditional balance between state and private ownership has tipped in favor of public enterprise. To some extent, the extension of state control has become self-perpetuating. Guido Carli, Governor of the Bank of Italy, has commented:

... the public sector's action has been geared more towards extending its reach than towards improving the administration of those sectors already under its control. This has inserted an element of instability into the institutional framework which I believe has had a negative impact on the process of capital accumulation.

Today the identifiable public sector accounts for an estimated 20 percent to 25 percent of the national output and one-third of gross fixed investment. About one-quarter of Italy's largest firms are state-owned or controlled, compared with only one-tenth a decade ago. These estimates exclude the fast-growing "grey areas" of public influence. Many companies are legally and managerially considered part of the private sector because the state only holds a minority of their capital stock, yet the government provides all external company financing through grants and bank loans.

State activities are broader in scope in Italy than elsewhere in the European Community. The state acts as an investor, producer, exporter, importer, manager, and monopolist in activities ranging from traditional operation of the railroads to shipbuilding, mining, and banking (Table 1). Public influence is expanding most rapidly in chemical production and petroleum refining and distribution. Control already is virtually complete in some industrial sectors such as cast iron and synthetic rubber production (Table 2).



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The holding companies under the Ministry of State Participations (for example, IRI, ENI, and EFIM) and their subsidiaries (for example, Finsider, Breda, and SNAM-Progetti) combine social-political motives with the profit motive. The chairmen of these companies have close relationships with and enjoy the support of the Christian Democrat party. Indeed, the dominant power group in the DC has free rein in passing out the positions. Fairly tight management control is maintained down the line. ENI's general manager, for instance, serves as vice-president of all ENI's major holdings.

The other political parties must make their influence felt through the CIPE (Comitato Interministeriale Programmazione Economica), the interministerial planning committee that sets national planning goals. The government provides the bulk of the state companies' financing needs (through outright grants, bank loans, and support of the bond market) and expects them to carry out national goals. For instance, a certain share of state enterprises' investments must be made in the Mezzogiorno. State-controlled firms are expected to act in a countercyclical fashion, increasing expenditures during recession years. Thus in 1970-72 when private investment fell, the public share of fixed industrial investment rose from its usual 30 percent to over 50 percent.

The government's role in "grey area" firms is less clear, but at a minimum the state can influence long-range investment planning. In the case of Montedison, government interests have a slight edge in the controlling syndicate and insist that national planning guidelines be followed. The government, however, claims that it will leave the day-to-day operation of Montedison to Eugenio Cefis and private interests. IMI (Istituto Mobiliare Italiano), a public investment bank, owns minority shares in many companies and acts as their financial advisor but supposedly keeps out of management.

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Table 1Italy: Major Public Enterprises and Important
Subsidiaries, by Economic Sector

<u>COMPANIES</u>	<u>ACTIVITIES</u>
<u>Energy</u>	
<u>Ente Nazionale per l'Energia Elettrica (ENEL)</u>	A public corporation for electric power production.
<u>Ente Nazionale Idrocarburi (ENI)</u>	A public financial corporation basically for hydrocarbons exploration, production, and distribution
<u>AGIP</u>	An ENI holding company for hydrocarbon research and production; distribution of petroleum products.
<u>ANIC</u>	An ENI holding company for crude oil refining and chemical production.
<u>SNAM</u>	An ENI holding company for the transportation of natural gas, petroleum, and petroleum products.
<u>AGIP Nucleare</u>	An ENI holding company for mineral prospecting, nuclear power plant construction, and nuclear research.
<u>Mining</u>	
<u>Ente Autonomo di Gestione per Le Aziende Minerarie Metallurgiche (EAGAM)</u>	A public corporation for control of the mining industry through acquisitions; mineral and metallurgical research; mineral imports.

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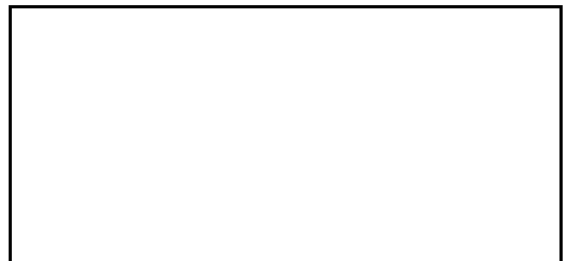


Table 1 (con't)

<u>COMPANIES</u>	<u>ACTIVITIES</u>
<u>Manufacturing</u>	
<u>Istituto per La Ricostruzione Industriale (IRI)</u>	A public financial corporation to finance and oversee a vast range of industrial holdings controlled by the state.
<u>Finsider</u>	A 55 percent IRI-owned holding company to control iron and steel activities by Dalmine, Italsider, Broda, and other publicly controlled steel firms.
<u>Fincantieri</u>	An IRI holding company in the shipbuilding sector.
<u>Finmeccanica</u>	An IRI holding company in the engineering sector, including automobile, aircraft, telecommunications and numerous other activities.
<u>Ente Partecipazioni e Finanziamento Industria Manifatturiera (EFIM)</u>	A public financial corporation controlling diverse industrial companies, principally in the mechanical sector.
<u>ENI</u>	(As described under Energy.)
<u>Lanerossi</u>	An ENI holding company for the production of wool textile and fabrics.
<u>Nuovo Pignone</u>	An ENI holding company engaged in the manufacturing of mechanical equipment for refineries.
<u>SNAM-Progetti</u>	An ENI holding company in the petroleum engineering sector.
<u>Società Gestioni e Partecipazioni Industriali (GEPI)</u>	A public financial corporation with diverse holdings in small and medium-sized manufacturing firms, owned by IMI, IRI, ENI, and EFIM.

Table 1 (con't)

<u>COMPANIES</u>	<u>ACTIVITIES</u>
<u>Construction</u>	
<u>IRI</u>	(As described under Manufacturing.)
<u>Italstrade</u>	An IRI-owned corporation specializing in road, bridge, airport and viaduct construction.
<u>Transportation and Communications</u>	
<u>IRI</u>	(As described under Manufacturing.)
<u>Finmare</u>	A 75.4 percent IRI-owned holding company controlling activities of various shipping lines.
<u>Alitalia</u>	A 81.7 percent IRI-owned corporation engaged in air transport.
<u>RAI</u>	A corporation controlling Italian television and radio, 98.4 percent owned by IRI and STET, an IRI holding company.
<u>STET</u>	A 56.8 percent IRI-owned financial holding company in the communications area.
<u>Autostrade</u>	An IRI-owned company constructing and operating toll highways.
<u>Azienda delle Ferrovie</u>	A state corporation operating the railroads.

Table 1 (con t)

COMPANIES	ACTIVITIES
<u>Finance</u>	
<u>IRI</u>	(As described under Manu- facturing.)
<u>Banca Commerciale Italiana</u>	A 95.5 percent IRI-owned commercial "bank of national interest."
<u>Banco di Roma</u>	A 96 percent IRI-owned commercial "bank of national interest."
<u>Credito Italiano</u>	An 81.4 percent IRI-owned commercial "bank of national interest."
<u>Credito Fondiario</u>	A 99.7 percent IRI-owned credit institution specializing in mortgages.
<u>Banca Nazionale del Lavoro</u>	A public "bank of public law" operating as a nonprofit institution.
<u>Istituto Mobiliare Italiano</u>	A public investment bank.

Table 2Public Enterprises' Share in Major Economic Activities^{1/}
(Percentage)Energy

Electricity	100
Natural gas	100
Gasoline distribution	29
Petroleum refining	18

Mining and manufacturing

Steel	60
Cast iron	95
Zinc	60
Lead	45
Shipyards	90
Railroads rolling stock	50
Automobiles	12
Capital goods	30
Cement	15
Synthetic rubber	90
Fertilizer	40
Basic petrochemicals ^{2/}	73
Chemical fibers ^{2/}	85
Ice cream	20
Frozen foods	7

Transportation and communications

Rail	97
Maritime	
Passenger	60
Freight	16
Air	99
Radio	100
Television	100
Telephone	100

Banking and insurance

Special credit institutions	100
Other banks	70
Insurance	25

1. Public enterprises are comprised of the national electric power company, the state railroads, and companies

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that the major state holding companies under the direction of the Ministry of State Participations either wholly own or control through stock participation. Data in large part are based on 1970 information, updated wherever possible. The measure of public control varies by sector. In some cases output data (tons of steel) were used to determine the public share, in others ownership (television), and in others credit extended (special credit institutions).

2. Including Montedison and, in the case of chemical fibers, Montedison's SNIA-Viscosa.

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